BELL INVESTMENT ADVISORS
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# The Opening Bell

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## "It Was the Best of Times, It Was the Worst of Times . . ."

by Jim Bell, CFP®, Founder and Chief Investment Officer

. . . So wrote Charles Dickens in his famous opening line of ***A Tale of Two Cities.*** Dickens wrote this novel in part as a warning and as an encouragement to his fellow citizens of Great Britain not to devolve into indiscriminate mass murder and mob violence as he compared the relative safety and stability of London to the chaos and bloodshed of Paris during the French Revolution. Robespierre's Reign of Terror scared the hell out of everyone and every nation that was paying attention. There was a better way to answer the grievances of the people.

**The Best of Times:** Today, volatility is everywhere overseas and in Washington, except in the U.S. economy. Though showing some weakness, it is still expanding with fundamentals that are like Goldilocks's porridge – not too hot, not too cold, but just right. U.S. Gross Domestic Product is marching forward in the range of 3% annualized for 2018, something not seen since 2005. This is a 50% acceleration from the 2% or less that was customary for several years. This rate of growth, even if it slows to 2.5%, will keep

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— Jim Bell, CFP®

the labor market strong and support rising wages. With the help of low energy prices, real disposable income will remain solid. Inflation and interest rates are falling and corporate earnings remain strong.

U.S. corporations are enjoying a permanent tax cut from 35% to 21% which has produced a tremendous boost to their earnings. I disagree when others say the benefit of the tax cut will fade in 2019. Yes, as we compare 2019 earnings to 2018 earnings it will not look as good as it did comparing 2018 to 2017. 2018 was the first year the tax cut went into effect. But the enormous tax savings for corporations will continue in 2019 and beyond. The U.S. economy, while slowing, is still in expansion mode. Slower growth is still growth, and while the Fed is raising short-term interest rates, U.S. consumers and corporations continue to enjoy historic low interest levels.

The 2018 earnings growth rates for the S&P 500 are historically high and should have supported a strong stock market gain: Q1 +24%, Q2 +25%, Q3 +26%. The corporate tax cut accounts for more than

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## Bell's Bright Future

*I am honored to announce that my son, Forrest Bell, CFP®, has been promoted to President of Bell Investment Advisors. I will remain as Chief Investment Officer and will continue to work closely with our Investment Committee. During our five years of planning for this succession, Forrest has assumed increasing responsibility for managing the staff and the firm's Financial Planning and Investment Management services.*

*Forrest began at Bell in 2005 in client services and has continued to take on more responsibilities and grow in the profession. After completing the rigorous curriculum of the College for Financial Planning and passing the comprehensive exam, Forrest achieved the CERTIFIED FINANCIAL PLANNER™ designation in 2011. He has found great satisfaction in working with clients as Senior Investment Advisor and leading our Financial Planning team. Finally, in 2015, Forrest completed the Charles Schwab Executive Leadership Program, which offered premiere curricula and faculty from top U.S. graduate business schools.*

*Forrest and his wife, Rose Lynn, live in Berkeley with their two girls, Sofia (11) and Nora (6). The family keeps busy in the Berkeley Public Schools and in gymnastics, soccer, choir, and Philippine cultural dance. Forrest serves on the School Site Councils for Willard Middle School and Emerson Elementary School.*

*With Forrest's new role and the strength of the full Bell team, we are well-positioned to continue the Bell dedication to excellence, teamwork, client service, ethics, and earning the trust of our clients – as well as welcoming new ones.*

*Yours truly,*

*Jim Bell, CFP®*
*Founder and Chief Investment Officer*

### MORE COVERAGE INSIDE

## It Was the Best of Times, It Was the Worst of Times . . .

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half of the earnings growth, but ignoring the tax cut, the growth is still in double digits. U.S. retailers just enjoyed their best holiday sales in six years, and the average American credit score as reported by FICO has hit an all-time high of 704! With the December jobs report released on January 4, we have notched 99 straight months of job growth. The report came in at 312,000 new jobs added, more than double what some economists expected. Average hourly earnings increased by 0.4% in December and bumped up to 3.2% for the calendar year 2018. This jobs report blew out any chance of a recession in the foreseeable future. What's not to like?

**The Worst of Times:** What caused the U.S. stock market to fall in a year of strong economic fundamentals? After a strong gain in January the market fell precipitously in February, which is the exact time that President Trump began talking earnestly about tariffs and began executing tariffs. I believe that tariff talk and tariff activity against our strongest allies and our adversaries is the primary reason for the negative markets in 2018.

Tariffs are taxes paid by consumers, and when you tax consumption, you get less consumption. I give President Trump credit for the corporate tax cuts and cutting red tape in terms of regulations. I wish he had left it there and continued to enjoy a rising stock market instead of declaring himself "Tariff Man." The tariffs are under-cutting his positive accomplishments of 2017. I agree that China must be confronted and punished for its long-time practice of stealing intellectual property. But we would be more effective if we were negotiating with China as a team with our allies. Unfortunately, teamwork is not the way of President Trump.

The U.S. and China are both hurting from the trade tensions. The drop in sales for Apple was contributed to by the trade conflict. And it is not just Apple. The drop in U.S. manufacturing was also contributed to by Trump's indiscriminate tariffs on aluminum and steel, which have increased costs for U.S. manufacturers and consumers. The costs of these metals are way up and U.S. manufacturers are forced to cut back. President Trump and President Xi are feeling great pressure from their economies and markets to cut a deal.

The stock market turnaround in early January was helped by the blowout jobs report for December and by dovish comments from Fed Chair Jay Powell at the American Economic Association annual meeting in Atlanta. Powell emphasized the Fed's flexibility about interest rate policy and in selling off the Fed's huge balance sheet. Nothing is on autopilot, according to Powell.

Finally, I believe the market has struggled because it under-appreciates the strength of the U.S. economy. Recovery is always hard, but keeping the faith is a major component of success. ■

## "What's Bonnie Going to Do?!"

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the fog of several years. She said, "Bonnie Bell! It's Jane Micallef!" As soon as I came to my senses, I said, "Jane! What are you doing these days?" Her answer blew my mind. She said, clear as a bell, "I'm a coach now! I've been meaning to get in touch with you to let you know. Are you still coaching? Her voice sort of trailed off while inside I was saying to myself, "Whoa!! Did you hear that??? She's a coach!!" Everything sort of stood still while this registered and we exchanged contact information.

Soon Jane and I were having monthly conversations about everything having to do with coaching, and eventually, along about June, the conversations started getting more specific about her beginning to take on the new coaching referrals at Bell. It became clear that we were thinking along the same lines. She came in to meet the staff and the staff was in agreement that Jane seemed to be a great fit for our needs.

By the time you read this, Jane's photo and bio will be on our website so you will be able to see her for yourself and contact her via her email at Bell: *jmicallef@bellinvest.com*. When you email her, she will follow up with you to arrange an initial phone conversation. Following that initial contact, the two of you will determine whether or not it makes sense for you to meet in person for the free consultation in our office. During that time, you can tell her more about your situation, she can tell you more about how she might be able to help, and together you can determine if you want to proceed with some coaching sessions.

Meanwhile, I'll be fairly easy to reach by email or message at Bell, and will be in the office regularly on Tuesdays and Thursdays. I'll tell you more about what I'm doing as plans begin to unfold. Thank you for your interest! ■

### NEW TEAM MEMBER SPOTLIGHT:

**Jena Regan, Paraplanner**

In December, BIA was pleased to welcome Jena to our Financial Planning Team as our newest Paraplanner. In her own words: "I began my Financial Planning career with a desire to help people gain a sense of calm in their financial lives, by looking at all the moving parts to create a true road map for their future." She is most interested in helping those around her uncover and achieve their most meaningful goals, be it to be a little happier, a little healthier, or a little more secure in their financial situation. After launching and operating a small business in San Francisco, as well as working in the REIT and legal industries, Jena made a career change to Financial Planning in 2016. She is currently a Candidate for CFP® certification and expects to earn her CFP® marks in early 2019. Welcome, Jena!

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# Earthquake Insurance

by Forrest Bell, CFP®, President, Financial Planner, and Senior Investment Advisor

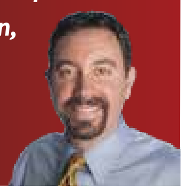
Over the past two years, the number of homes destroyed by wildfires in California has prompted many homeowners to reconsider their homeowners insurance policies and for good reason. Homeowners policies that are written to insure a home from damage affecting a single home might not provide coverage for damage that results from a larger disaster. Take the loss of use provision found in homeowners policies, for example. Loss of use provisions—sometimes called additional living expense provisions—pay for reasonable costs of living over normal household expenses so homeowners can live elsewhere while their damaged home is being repaired or rebuilt. If a home burns down because of a kitchen fire, a full year of loss of use coverage is often sufficient. But what if the cause of home damage is not limited to a single home? What if the cause has impacted an entire community?

Rebuilding after a disaster that has impacted an entire community always takes longer. It takes more time to get permits because they require architecture and engineering plans, which are in short supply as the city is overwhelmed with similar requests from so many homeowners. The rebuilding itself takes longer because there isn't enough available labor to do all of the work. Ideally in a homeowners policy that anticipates larger disasters, the loss of use provision is unlimited and includes a cash-out option so the homeowner can opt out of rebuilding altogether.

However, even homeowners policies written with larger disasters in mind do not ensure against damage from an earthquake. For that, you need earthquake insurance. In our past article about homeowners insurance, we mentioned that California homes tend to cost well above the national average. For that reason, home equity often plays a major role in the retirement plans of Californians.

***When the next large earthquake will hit California is unknown, but it's certain that it will happen.***

— Forrest Bell, CFP®



If you're counting on your home's equity to realize your retirement goals but your home is vulnerable to earthquakes, then earthquake insurance can be very important.

When the next large earthquake will hit California is unknown, but it's certain that it will happen. That certainty makes earthquake insurance a relatively expensive kind of insurance, which is a big reason why so few Californians own it. Only 13% of California homes and fewer than 10% of the state's commercial structures are covered by earthquake insurance. Many of the homeowners who do not own earthquake insurance now did own it at one time but decided to drop it due to its high cost. But because the cost of earthquake insurance can vary significantly depending on the carrier and market conditions, it is worth exploring, or reexploring, whether you need earthquake insurance. So other than a large amount of equity in your home, what other factors make earthquake insurance worth buying?

The features of a home help determine how vulnerable it is to earthquake damage. What type of construction was used? How close is the home to a fault line? What is the quality of soil the home is built on? Bedrock is more secure than a hillside rich in clay. Does the home have multiple stories? Single-story homes generally perform well in an earthquake, while homes with three or more stories are the most vulnerable.

Then there is the quality of the foundation. A foundation built to current code is the most cost-effective defense against home damage due to an earthquake. California building codes as they relate to foundations have changed a lot in the past 80 years. Starting in 1940, the code changed to require that frames be bolted to the foundation. By 1997, the code not only required that frames be bolted to the foundation but also that the bolting include mudsill bolts and transfer ties. Additionally, the cement used in the past was much weaker than the cement required for foundations today. These and a slew of other important seismic improvements were added to the code in the 1990s, so if your home was built later than that, you likely have a good foundation. Still, even the foundations of newer homes are worth taking a look at as the bolting can rust and deteriorate over time.

Homeowners shopping for earthquake insurance also need to consider which insurance company to use. Homeowners insurance providers in the state of California are required to offer residents earthquake insurance every two years. After the Northridge earthquake of 1994 in Los Angeles, many private insurance companies decided that earthquake insurance was too risky. Because of this, California created the California Earthquake Authority (CEA) to fill the void insurance companies had left behind. Private insurance companies can partner with the CEA to offer earthquake policies while reducing their financial risk. Since the Northridge earthquake, the CEA has had more than 20 years to build its reserves, allowing it to accrue $15 billion in available funds. There are some questions about what will happen if the total liabilities from successive earthquakes exceed those available funds. Private insurers, on the other hand, boast that they're in an even better financial position and are able to offer a cash-out option in their policies. However, not all homes will qualify for private insurance, and it may be more expensive. So homeowners have to decide whether a private insurer or a policy through the CEA is better for them. It's crucial to use a professional insurance broker to help you decide what's best.

A key consideration as you begin thinking about earthquake insurance is to understand your home's equity and the extent to which your financial plan depends on that equity. Once you have that in mind, you should think about the specific features of your home that might make it especially vulnerable to an earthquake such as the quality of its foundation, the type of soil on which your home is built, its proximity to a fault line and the number of stories. If these point to a need for earthquake insurance, then gather quotes from different insurance providers including the California Earthquake Authority. You can visit the CEA's website (https://www.earthquakeauthority.com) to get a premium estimate and then work with a professional insurance broker to choose the policy that best aligns with your concerns and needs. ■

# "What's Bonnie Going to Do?!"

by Bonnie Bell, MA, MDiv., Principal, and Director of Career/Life Coaching

Ever since Jim's Succession Letter went out last month announcing that Forrest has become President of Bell Investment Advisors, people have been asking me about my own plans for 2019, as if now I would be joining the Peace Corps or the circus, or finding a new job, or traveling to the Far East all on my own.

I have observed for years that most people are a little uncomfortable when they hear about other people's career/life transitions, be they layoffs or promotions or "quittings" or firings or retirements. As normal human beings, we want things settled, definitely not "up in the air;" definitely settled. We like to hear about plans when they're all set, not when they are unfolding. So the answers to your questions about my own transition from decades of entrepreneurial endeavors to partial retirement is partially complete and partially incomplete. Is that perfectly partially clear?

Let's start with what I consider to be The Big News, which is that I have found someone I consider to be the perfect person to begin taking on all new career coaching clients at Bell. I will continue to work with my current coaching clients and former coaching clients when and if they return and wish to continue working with me. I will continue to write for the Opening Bell and will continue my blog at least for the coming year. I'll tell you more as the future unfolds. I want to take some time to get used to the new me with more free time in my life. I don't want to start filling up all the open spaces.

***I'll tell you more about what I'm going to do this year as plans begin to unfold.***
— Bonnie Bell, MA, MDiv.

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Building Positive Momentum in Our Community Since 1991

Finding someone to continue the coaching offer at Bell beyond my own employment has been a major concern of mine for a very long time, and a primary endeavor this past year. I am deeply gratified to introduce to all of you, Jane Micallef (pronounced "McAlif" accent on the "Mic"), a Certified Professional and Leadership Development Coach, with expertise and certification in Whole Brain Theory and Strategies that improve individual, team and organizational performance. She holds a Juris Doctor from Boalt Hall School of Law, and prior to working in management for almost 20 years at the City of Berkeley, she was the Executive Director of the Homeless Action Center in Berkeley

where she provided legal representation for over five years for those experiencing homelessness.

I first met Jane when she was working for the City of Berkeley as the Director of Housing & Community Services and I was the President of the Board of the Chaplaincy to the Homeless in Berkeley. Our lives intersected for several years having to do with issues of homelessness, but eventually our lives and work took us in different directions and we lost touch. We always held each other in high regard.

Then toward the end of 2017, when I was thinking a lot about how I was going to go about finding just the right person to match the needs at Bell, I was shopping on Fourth Street in Berkeley when I heard someone calling my name. I stopped walking at my brisk pace to see who it was. There stood Jane Micallef emerging out of

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